

# **Affordable Housing Contribution Procedures and Valuation Techniques**

## ***Discussion with AHAAC***

MARCH 3, 2016

**OFFICE OF HOUSING**

# Let's talk about how...

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- ❑ affordable units get built in the City
- ❑ voluntary (monetary) affordable housing contributions are calculated
- ❑ affordable housing provided on/off-site is valued

Housing Master Plan:  
new affordability for  
2,000 units by 2025

# How affordable units get built

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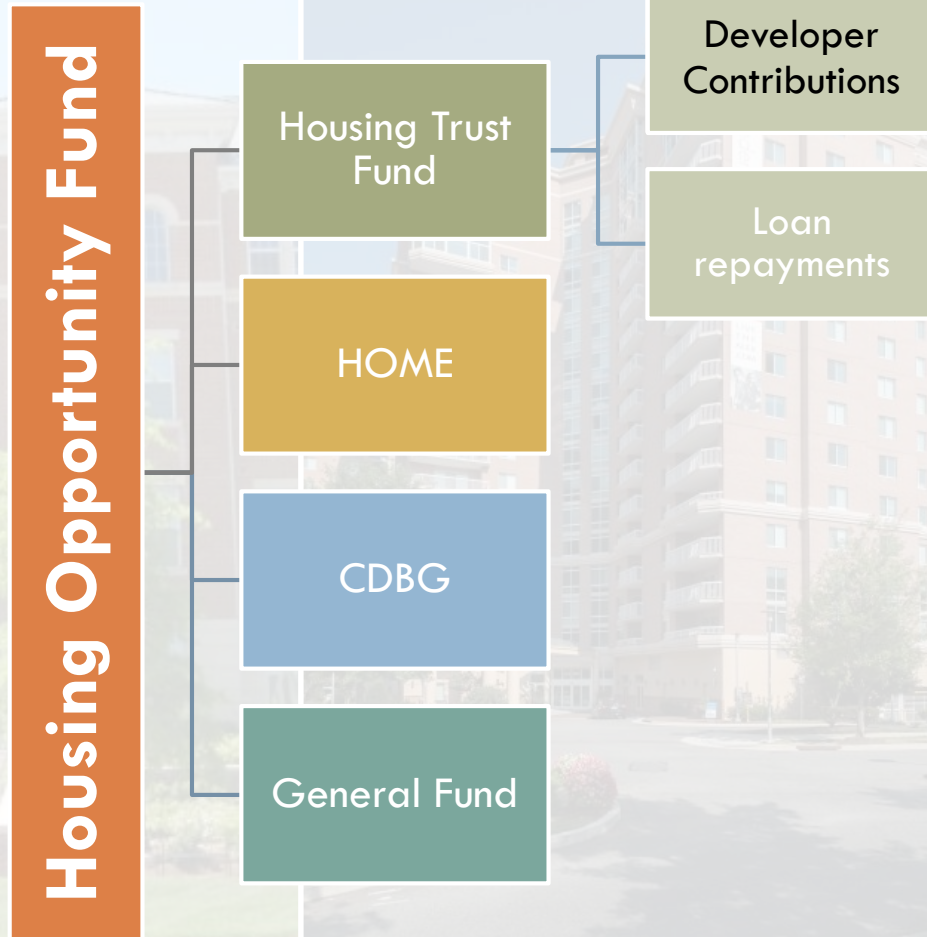
- Voluntary monetary contributions to the Housing Trust Fund
- Sec. 7-700
- CDDs and rezonings



# How affordable units get built

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- Voluntary monetary contributions to the Housing Trust Fund



# How affordable units get built

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## □ Voluntary monetary contributions to the Housing Trust Fund

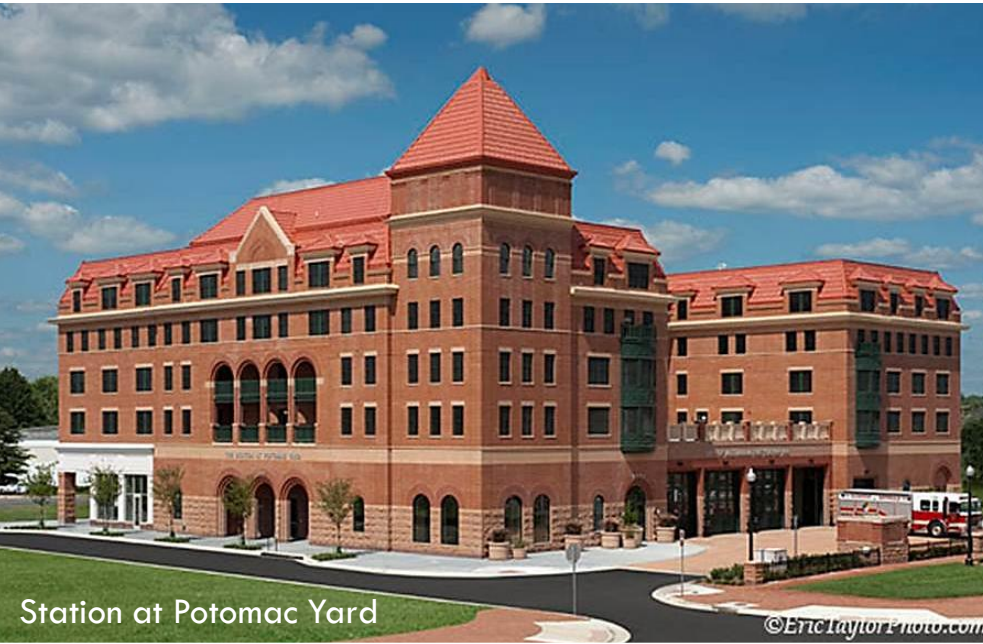
Helps fund:

- The development and preservation of affordable rental housing
  - Leverages state and private funding
- Housing counseling services
- Mini-RAMPs (rental accessibility projects)
- Rebuilding Together America
- Homeownership programs



# Housing Trust Fund dollars at work!

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Station at Potomac Yard

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Community Lodgings



Arbelo Apts



Gateway at King and Beauregard



Jackson Crossing

# Voluntary monetary contributions

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Development Category	Tiers	2015 Rates per Sq. Ft.
Non-residential	n/a	\$1.89
Residential	Tier 1 (by right)	\$2.51
Residential	Tier 2	\$5.03

- Rates adjusted annually (CPI for Housing)
  - ▣ 2016 rates to be released in March
- Paid when projects are completed

## Exemptions:

- Religious, public, municipal uses, and ARHA
- Residential uses < 5 units
- New construction and additions < 3,000 sq ft
- Parking except for single-owner garages



# 601 Henry Street (The Park Residences)

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## Application:

18 Townhouses: 49,034 GFA

## Site characteristics:

Lot area: 29,523

Zoning: CSL

FAR permitted: 0.75

FAR proposed: 1.75

By right:  $29,523 * 0.75 = 22,142$  GFA

Development Category	GFA	2014 Rates per Sq. Ft.	Voluntary Contribution
Non-residential	n/a	\$1.85	n/a
Residential Tier 1 (by right)	22,142	\$2.47	\$54,691
Residential Tier 2	26,892	\$4.94	\$132,845
Total contribution to Housing Trust Fund:			\$187,537

**FAR=floor area ratio** (the total square feet of a building divided by the total square feet of the lot on which the building is located)



# Section 7-700 (bonus density and/or height)

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# Section 7-700 (bonus density and/or height)

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- Provides for added bonus density (up to 20%\*) and/or height (up to 25' in areas w/o a 50' or lower height limit) in exchange for affordable housing
- Changes since 2013
  - ▣ \*More than 20% bonus permitted if authorized by small area plan
    - 2015 Eisenhower West SAP
  - ▣ 1/3 of bonus units (or equivalent) must be committed affordable
  - ▣ Affordable offsite units permitted if equivalent in value
  - ▣ Cash in lieu of units permitted if mutually agreed to



# 2901 Eisenhower Avenue

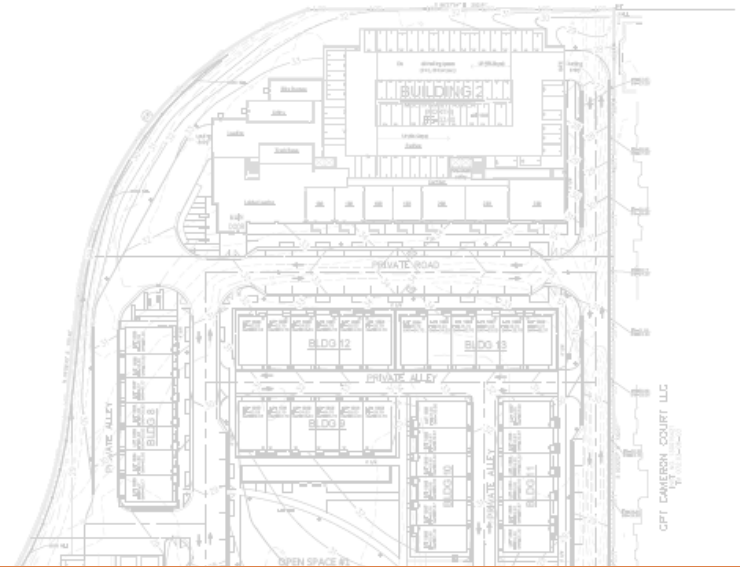
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## Application:

South Tower (apts):	333,734 GFA
South Tower (retail):	9,000 GFA
North Tower (apts):	560,182 GFA
67 Townhouses:	218,767 GFA

## Site characteristics:

Lot area:	391,093
Zoning:	CDD 3 (existing)
FAR permitted:	2.5
FAR proposed:	2.73
Bonus density:	90,698 GFA
Net parking:	63,313 GFA



## ADUs attributed to bonus density\*:

1/3 of bonus net parking: 21,104 GFA  
= 21 units (averaging 1,000 sqft/unit)  
(13 one-bedrooms & 8 two-bedrooms)

\* \$2.2 million was also contributed to  
the Housing Trust Fund

# CDDs and rezonings

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- When additional density is requested, the Housing Master Plan recommends contributions take into account that affordable housing is one of the City's highest priorities and that there should be a significant monetary or in-kind contribution to affordable housing in excess of what would normally be required with a DSUP
  - Examples: Oakville Triangle (approved) & ABC/Giant site (on 3/12 council docket)
  - Planning Commission feedback: Compare contribution to affordable units that would have been achieved through Sec. 7-700



# Valuation—the importance of inputs

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## □ Inputs

- ▣ Market rents (comps)
- ▣ Affordable rents—maximum LIHTC gross rents (source: [VHDA](#)) at 30% of 60% AMI for Northern Virginia MS
- ▣ Rent escalation rates
  - ▣ market (changes in overall market)
  - ▣ affordable (changes in LIHTC rents)
- ▣ Expense escalation rates
  - ▣ market
  - ▣ affordable } may be the same
- ▣ Vacancy rates
  - ▣ market
  - ▣ affordable
- ▣ Turnover rates
- ▣ Parking reductions for affordable units

**Are we missing anything?**

# Valuation—different techniques

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- **Net operating income (NOI) and cap rate**
  - ▣ Value=NOI/cap rate
  - ▣ “Point in time”
  - ▣ Cap rate
    - Return on investment; market driven/determined by comps
    - Sources: CoStar, CBRE, IRR
  - ▣ Example: Beauregard

**NOI=Potential Gross Income-Vacancy-Bad Debt-Operating Expenses**

Potential Gross Income=rental income + other income + expense reimbursements

Operating Expenses=taxes + repairs + maintenance + insurance + utilities + replacement reserves

# Valuation—different techniques (cont.)

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- **Net present value analysis**
  - ▣ “Over time” (e.g. 20, 25, 30, 40 years, etc.)
  - ▣ Discount rate (factor)
  - ▣ Highly sensitive to length of analysis (affordability term), discount factor, and rent and expense escalation rates
- Example: Oakville Triangle project

*“The discount rate takes into account not just the time value of money, but also the risk or uncertainty of future cash flows; the greater the uncertainty of future cash flows, the higher the discount rate.”*

# Oakville Triangle DSUP

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- Affordable housing negotiated as part of broader community benefits package
  - ▣ Estimated standard monetary contribution
  - ▣ Developer agreed to provide on-site units
  - ▣ Estimated affordable unit target
  - ▣ Negotiated number and terms of units at a significantly higher value

Development Category	GFA	2015 Rates per Sq. Ft.	Voluntary Contribution
Non-residential	460,962	\$1.89	\$871,218
Residential Tier 1 (by right)	476,349	\$2.51	\$1,195,635
Residential Tier 2	567,902	\$5.03	\$2,856,545
<b>Standard contribution to Housing Trust Fund:</b>			<b>\$4,923,398</b>

Net Present Value Analysis	
Number of affordable units	65 (63 studios & 2 two-bedrooms)
Area median income	At or below 60% AMI
Term of affordability	25 years
Annual escalation rate	3%
Discount rate	5%
<b>Estimated value of on-site units:</b>	<b>\$7,818,570</b>



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Thank you! Questions/Ideas?